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SUBJECT: PAKISTAN IMPOSES 35 PERCENT DUTY ON FLOUR EXPORTS

1. (U) This cable has been coordinated with Consulates Lahore and Peshawar.

2. (SBU) Summary: The Government of Pakistan (GOP) has imposed a 35 percent duty on the export of wheat products in an attempt to discourage exports, bolster domestic supplies and reduce the domestic price of flour. Flour exports are destined almost exclusively for Afghanistan. The GOP has been unable to bring down the domestic price of flour, prompting the move to restrict flour exports to Afghanistan, reported at 600,000 metric tons annually. End Summary.

3. (SBU) Federal Board of Revenue Chairman Yusuf explained to the Ambassador and Economic Counselor during a courtesy call December 7 that the 35 percent export duty was imposed because the cost of domestic flour is half that of imported flour, in part because of the GOP's domestic wheat support program. As a result of the price differential, exports have increased, resulting in flour shortages and high prices in Pakistan, despite a bumper wheat crop. Yusuf explained that Pakistan is now importing one million metric tons of wheat at international prices to cover domestic shortages.

4. (SBU) The 35 percent duty went into effect immediately. Domestic wheat prices have risen dramatically in recent months, increasing fifty percent in the Northwest Frontier Province (NWFP) bordering Afghanistan. Pakistan needs to produce over 23 million metric tons of wheat per year to be self sufficient. Although the country produced a record 23.5 million metric tons of wheat in 2006, cross border trade and smuggling pushed Pakistan's wheat stockpile below the 23 million metric mark, prompting price increases. Pakistan's wheat exports to Afghanistan have remained steady at around 600,000 metric tons annually.

5. (SBU) Provincial governments previously advocated central government intervention in the price of wheat flour. Despite unsubstantiated reports of truck seizures along the border, Consulate Peshawar contacts report that trucks are currently crossing the Afghan-Pakistan border unimpeded and no ban on the export of wheat flour has been put into place. The NWFP is dependent on wheat flour from the neighboring Punjab, Pakistan's most populous province. While there is no restriction on the transportation of wheat flour between provinces, NWFP officials allege that Punjab provincial authorities are restricting the flow of wheat out of the province in an attempt to manipulate the flour supply. Wheat flour delivery disruptions have been reported in NWFP markets.

6. (SBU) Comment: The duty imposition is largely seen as damage control exercise by the GOP. With general elections scheduled for January 8, governments -- both federal and provincial -- are eager to bring down the cost of basic commodities, including wheat flour.

High food prices are frequently cited in polls as the middle and lower classes' primary concern. While the imposition of the duty will have an effect on the volume of wheat that is traded to Afghanistan via official channels, cross border smuggling will undoubtedly increase, fueled by increased demand and profits. End Comment.

PATTERSON